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Elliott, Howard

Before the Interstate
Commerce Commission...

[New Haven, Conn.]

[1917]

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**Before the
Interstate Commerce Commission**

Matter of Increased Freight Rates

STATEMENT OF
HOWARD ELLIOTT

2

IN BEHALF OF
**The New York, New Haven and Hartford
Railroad Company
Central New England Railway Company**

May 7th, 1917

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THE WILSON H. LEE COMPANY,
NEW HAVEN, CONN.

171,151.00. Balance 2,517

At Washington, D. C.

The New Haven asks for a substantial increase in rates of all kinds, because:

FIRST. The results of the operations of the New Haven for the last three years have been as follows:

Balance after paying expenses, taxes and fixed charges:

Year ending December 31, 1914.....	\$ 182,960.00
" " " 31, 1915.....	4,659,130.00
" " " 31, 1916.....	5,554,977.00

Ratio of Operating Expenses to Operating Revenue for the New Haven and Central New England, which are operated as one rail property:

Year ending December 31, 1913.....	71.78
" " " 31, 1914.....	73.00
" " " 31, 1915.....	63.89
" " " 31, 1916.....	66.92

SECOND. Segregating the investment on the steam railroad properties from all others the book value of such property on December 31, 1916, was \$266,603,000.00.

On this, after deducting all income from sources other than from the operation of railroads and after paying expenses, taxes and necessary rentals and charges, the return in the admittedly prosperous year of 1916 was only 5.4%.

THIRD. It is facing in common with all roads increasing costs of all kinds, which are cumulative and which will in a short time mean an annual increase in its expenses of \$12,000,000 to \$17,000,000. A brief summary of these increases is as follows:

	Minimum	Maximum
Adamsón Law.....	\$ 1,400,000.00	\$ 1,600,000.00
Other Wages.....	2,100,000.00	2,500,000.00
Fuel	4,000,000.00	6,000,000.00
Other Material.....	4,000,000.00	6,000,000.00
Increased Interest.....	500,000.00	500,000.00
Increased Taxes	300,000.00	400,000.00
	\$12,300,000.00	\$17,000,000.00

A 15% increase in freight rates, if that percentage could be applied in every transaction would be, based on 1916 business, about \$6,500,000., but there are some kinds of business where the 15% cannot be applied. The increase will be approximately \$3,000,000. to \$3,500,000.;—not enough to pay the increased fuel bill alone.

Because of lack of facilities it is unlikely that the volume of business done will be materially larger.

The increased expenses are more than likely to eat up all balance above fixed charges.

FOURTH. The general level of the freight rates on the New Haven is lower than for a majority of the roads in the country.

FIFTH. Its proportion of less than carload business and of lightly loaded carload business is greater than on any road in trunk line territory, resulting in smaller car and train load. Its business is more of a retail character, with many small customers than is the case for any other road.

SIXTH. The average haul per ton is the shortest of any road in trunk line territory except one, thereby causing very heavy terminal expenses.

SEVENTH. It, in common with other New England roads, has to pay much more for fuel coal than other roads in trunk line territory, because of the freight rates,—by rail and water. This increased cost, based on fuel consumed on the New Haven, amounts to about \$4,000,000. per year.

EIGHTH. The general level of wages in its territory is higher than in most of the trunk line territory.

NINTH. It needs to spend many millions of dollars in betterments and improvements in the interest of adequate service to the public and better working conditions for the employees. Its net returns should be larger so as to increase the amount to be spent upon the property, and so as to improve its credit so that money can be obtained on more reasonable terms than under present conditions.

FINANCIAL RESULTS FOR YEARS ENDING

December 31, 1914—1915—1916.

As is well known the conditions surrounding the operations and transactions of the New Haven road for the last few years

have been very unusual. Here is a property serving the most populous part of New England,—a section needing transportation in large volume and on the whole of very high quality. While the New Haven serves Southern New England its relation to the whole of New England is most important, and if it is not developed properly it prevents the growth of New England as a whole and this growth is important not only to the people of New England but to the people of the whole country.

The six New England states have about one-fourteenth of the National population and consume about one-eighth of the materials of manufacture. Anything that affects adversely the credit and welfare of New England will affect the whole country.

How severe the struggle has been to maintain the New Haven property in the last few years under the conditions existing is shown by the fact that for the years ending December 31st, 1914, 1915 and 1916 the balance after paying fixed charges for the New Haven was:

Year ending December 31, 1914.....	\$ 182,960.36
“ “ “ 31, 1915.....	4,659,129.76
“ “ “ 31, 1916.....	5,554,977.36

It may be said because of the fact that the New Haven has many so-called “outside properties,” some of which are unprofitable, that these figures show a satisfactory growth, and that the public should not be asked to pay any higher rates.

In answer to this it is fair to point out the returns received for the year ending December 31, 1916, on the rail-property devoted to the public use. 1916 is admitted by all to have been a year when railroads had an unusual volume of business, and in fact the New Haven had more than it could do with satisfaction to its customers and the best results for itself.

The book value of the properties owned by the New Haven and upon which it should be allowed to make a reasonable return was in round figures on December 31, 1916:

N. Y., N. H. & H. R. R.....	\$228,764,000.00
Central New England.....	24,339,000.00
New York Connecting.....	13,500,000.00

\$266,603,000.00

Many elements of value are not included in this figure such as money spent in the past for betterments and improvements amounting to many millions, but charged to operating expenses, valuable contract rights, improvement in terminal values, strategic location, etc. So it is not an unfair statement to say that this book value of \$266,000,000 is a low figure for the property upon which a return should be made. During the year ending December 31st, 1916, the operation of the rail property above showed results as follows:

Gross Income	\$32,619,000.00
From this must be deducted income from outside properties and sources entirely separate from earnings derived from the operation of the rail properties.....	4,562,000.00
Leaving	\$28,057,000.00
From this must be deducted item for rent of leased roads, terminal facilities, hire of equipment and other items incident to the operation of the rail properties mentioned..	13,557,000.00
Leaving	\$14,500,000.00

to represent a return upon the \$266,600,000 of property devoted to the public use, or only 5.4% return. Surely a sum wholly inadequate to justify the risks of ownership to permit any proper expansion of the property and to attract new capital for that purpose.

While the year 1916 showed a very large volume of gross earnings for these rail properties,—\$85,640,365.00, the largest in the history of the Company,—the difficulties of doing business were very great due to congestion, disturbed labor conditions, and industrial complications due to the European War, which bid fair to be far worse during the next eighteen months than anything experienced before.

The ratio of Operating Expenses to Operating Revenue has been as follows:

Year ending December 31, 1913.....	71.78
“ “ “ 31, 1914.....	73.00
“ “ “ 31, 1915.....	63.89
“ “ “ 31, 1916.....	66.92

The figures would indicate that in spite of the unusual conditions of 1916 there was a reasonable amount of efficiency in operation and that an increase in rates should not be denied because of any waste or lack of efficiency.

REVENUE.

Increased Gross Absorbed by Increased Expenses.

During the latter part of 1916 and to April 1st, 1917, from sources that will be commented upon more in detail substantial increases in Gross Operating Revenues were more than absorbed by rising expenses as shown by the following actual figures:

	Gross	Net
September	\$ 882,000.00 Inc.	\$ 48,000.00 Dec.
October	536,000.00 “	334,000.00 “
November	379,000.00 “	451,000.00 “
December	776,000.00 “	19,000.00 Inc.
January	805,000.00 “	243,000.00 “
February	139,000.00 Dec.	415,000.00 Dec.
March	962,000.00 Inc.	305,000.00 Inc.
Total	\$4,201,000.00 Inc.	\$681,000.00 Dec.

The figures as submitted monthly to the Interstate Commerce Commission show as follows:

	Gross	Net
September	\$ 882,000.00 Inc.	\$ 8,500.00 Dec.
October	536,000.00 “	314,000.00 “
November	379,000.00 “	168,000.00 “
December	776,000.00 “	273,000.00 Inc.
January	805,000.00 “	467,000.00 “
February	139,000.00 Dec.	112,000.00 Dec.
March	962,000.00 Inc.	503,000.00 Inc.
Total	\$4,201,000.00 Inc.	\$640,500.00 Inc.

These figures, however, do not reflect the true results for the following reasons:

The Interstate Commerce Commission authorizes carriers to charge estimated amounts to Maintenance Accounts. During the year ending June 30th, 1916, the New Haven Company

charged to Maintenance \$1,066,270.47 in excess of the actual expenditures because of the inability of the Company to obtain labor and materials. By permission of the Interstate Commerce Commission this amount was carried forward to the next fiscal year as a reserve to be used when the Maintenance expenditures were actually made.

The difference between the figures shown in the two preceding tables is because of the fact that estimated figures have to be used in part when the monthly accounts are made up, and because part of the \$1,066,270.47 is being credited to expenses by authority of the Commission, and the entire sum will be absorbed during the calendar year 1917.

The first table, however, shows the actual results and shows that expenses have increased so as to change an increase in gross of \$4,201,000.00 to a decrease in net of \$681,000.00.

TAXES.

As taxes are based in part on Gross Earnings there will be an increase in taxes due to any increase in rates that will produce larger gross earnings. The Corporation Tax may also be increased. The best estimate that can be made is that taxes may increase \$300,000 to \$400,000 per year.

Taxes paid in each state for the last year were as follows:

	N. Y., N. H. & H. R. R.
New York.....	\$670,968.71
Massachusetts	922,671.01
Connecticut	948,148.78
Rhode Island	388,781.31
District of Columbia.....	7.50
United States Government.....	94,119.01
Total	\$3,024,696.32

INCREASES IN WAGES.

For the New Haven and Central New England Combined.

Total payroll, calendar year 1916.....	\$33,583,000.00
Estimated Increase per annum:	
(A) Account Adamson Law.....	1,395,000.00

(B) Other increases already made to employees in Engine houses, shop mechanics and laborers, section forces, freight handlers, telegraphers, etc.....	1,380,000.00
(C) Other increases almost certain to be necessary because of general conditions, to station and general office clerks, signalmen, and unclassified employees, crossingmen, watchmen, etc., approximately.....	750,000.00
	\$3,525,000.00

It is difficult to make an exact estimate of the amount that must be paid in order to obtain and retain adequate working forces under present conditions of demand for men by the Government and foreign countries.

It is evident from recent increases granted in the coal fields and in many manufacturing concerns that there will be heavy demands made upon the railroads which must be met all or in part, if the roads are to be maintained in suitable condition for the very pressing needs of the country at this time. And it is believed that this estimate is conservative.

INCREASED COST OF BITUMINOUS COAL.

Something over 2,000,000 gross tons of bituminous coal are consumed per annum, which is mined in the Pennsylvania and West Virginia coal fields.

Under normal conditions, about 60 per cent. of this supply reaches the road by water and 40 per cent. by all-rail routes; this is an important factor, in view of the present costs of water transportation. It is physically impossible at present to obtain the entire supply by rail.

January 1, 1916, the investment in fuel was....\$ 849,819.

January 1, 1917, " " " " " 2,344,885.

Increase in investment..... 1,495,066.

most of which represented additional coal on hand.

The average contract price for all bituminous coal for delivery in 1916 was \$1.25 per gross ton at the mines, and the average contract cost on cars on New Haven rails was \$3.24.

These contract prices were increased in the latter part of the year 1916 an average of 15.5 cents per ton, or about 12.5 per cent. on account of increased wages paid the miners.

It is impossible to estimate accurately the cost of future supply, because a contract for coal does not ensure the delivery except upon a falling market. The delivery of a given tonnage under contract at a given price is always contingent on any advance in the wage scale, and also on strikes, accidents, car shortage, interruptions to traffic, embargoes and similar causes, all of which are taken advantage of by the shipper to the fullest extent on a rising market.

During the contract year ending March 31, 1917, 619,000 tons remained undelivered on contract calling for 1,962,000 tons, a shortage of over 31 per cent.

During the last five months of the contract year, or for November, December, January, February and March, the receipts averaged about 56 per cent. of the contract requirements. This deficiency had to be made good by immediate purchase in the open market at prices far above the contract prices.

In the last three months of 1916, the Company was compelled to buy over 110,000 tons at prices which averaged \$7.35 per gross ton, delivered on its rails, as compared with a contract cost of \$3.24 per ton, an increase of nearly 127 per cent. This was so-called "spot coal" bought under pressure and regardless of price in order to keep the road in operation, because coal under contract was not delivered.

In the thirty days ending April 20, 1917, it has been necessary to buy, from the same cause, over 110,000 tons at an average price of \$3.98 per ton at the mines, as compared with last year's contract price of \$1.25, an increase of 218 per cent. To which must be added the freight rates: if by water, a minimum of \$4.00, and recently charters have been quoted from Newport News to New England ports as high as \$5.25 per ton; if by rail, from \$1.50 to \$1.75 per ton.

Such conditions make accurate estimates very difficult. This year it is difficult to obtain any contracts at all either for coal or water transportation, except at very high figures. No generally accepted prices have been established for railroad fuel, as is usually the case, and as a consequence a large tonnage remains uncontracted for.

A few contracts remain for a limited quantity which do not expire until July and August of this year, and there are four long-term contracts aggregating 626,000 tons per annum which were made last year at prices much below the present market. How much of this low-priced coal will be received remains to be seen.

About 75 per cent. of the requirements for 1917 have been contracted for to date, or something over 1,500,000 tons. Including the low-priced contracts mentioned, the average price is \$2.36 per gross ton at the mines, an increase of 88.8 per cent. over last year. The prices paid for the remaining 25 per cent. will raise this average materially, and this does not include the cost of water transportation.

Contracts made this year for transportation on Long Island Sound are at an average increase of 40.5 cents per ton over last year, or 126 per cent., but owing to one long-term contract which continues in force this year, the average increase in Sound transportation is reduced to 21 cents per ton, or 63.4 per cent.

Comparatively little ocean transportation has been arranged for as yet. Two old contracts exist aggregating 200,000 tons at the same price as last year, and one long-term contract at an increased cost of 70 cents per ton, or 87 per cent. advance.

Two charters have been made this year, aggregating 110,000 tons, at \$2.05 per ton, plus insurance, which at present amounts to about 50 cents per ton, total \$2.55. In 1915 and the first half of 1916 charters were made for 130,000 tons at 60 cents per ton. This represents an increased cost of \$1.95 per ton or 325 per cent. The rates asked from Hampton Roads to Boston at present are from \$4.00 to \$4.50 per ton and more recently \$5.25.

Besides this a further increase in cost is certain to occur due to another advance in the miners' wages and an increase in the rail rates.

It is these facts which make a close estimate difficult. Figures have been prepared, based on known conditions as they exist today applied to the tonnage bought in 1916, which show an average increase of 126 per cent. in the estimated cost of fuel supply for 1917. The actual figures may prove to be less than this amount or they may run over it.

The figures showing total value do not include the cost of transportation on the coal moving by rail to New York and Maybrook or other rail Junctions which averaged \$1.63 per ton in 1916.

There is little reason to doubt that fuel costs in 1917 will be twice what they were in 1916, which will mean an increase approximately \$6,000,000. per annum unless some unforeseen circumstances operate to materially modify the present conditions.

COMPARATIVE COST OF LOCOMOTIVE COAL.

Based on actual contracts for 1916, and on the same tonnage and delivery at prices for which a portion has been contracted for in 1917.

Coal bought f. o. b. mines for rail transportation:

	Gross Tons	Average Price	Value
1916.....	1,370,688	\$1.18	\$1,625,752.45
1917.....	1,370,688	2.66	3,706,030.08

Coal bought delivered at Destination—involving water transportation:

	Gross Tons	Average Price	Value
1916.....	686,400	\$3.25	\$2,230,240.60
1917.....	686,400	7.30	5,010,720.00

TOTAL FIGURES

	Gross Tons	Average Price	Value
1916.....	2,057,088	\$1.87	\$3,855,993.05
1917.....	2,057,088	4.24	8,716,750.00
Increase		\$4,860,756.95	126%

	Gross Tons	Average Price	Value
1914.....	1,289,838	\$1.37	\$1,773,136.37
1917.....	1,289,838	4.24	5,468,913.13
Increase		\$3,695,776.75	209%

This statement takes no account of long time, low-priced contracts but is based on contracts actually made in 1917 and shows the result if present market prices governed all contracts.

INCREASED COST OF MATERIALS.

The total investment in material of all kinds on January 1, 1917, was \$8,738,161, as compared with \$5,336,140 on January 1, 1916, an increase of \$3,402,020., or 63.75 per cent.

Of this total \$2,344,885 represented fuel and \$6,393,275 represented material other than fuel.

The increase, as compared with the previous year, was:

Fuel	\$1,495,066
Material other than fuel.....	1,906,954

MATERIAL OTHER THAN FUEL.

During the year 1916, \$9,224,000 was expended for material other than fuel.

There was a constant rise in the values of all classes of material during the year, but the upward tendency was more marked and rapid during the last six months, and since January 1, 1917, prices have still further advanced materially.

The effect of these increases on operating expenses was not immediately apparent, because on January 1, 1916, there was on hand material to the value of \$4,486,321., which represented an average supply for seven months, at normal prices, and there were unfilled orders for considerable quantities on contracts which had been made in the early part of 1915, and which were received during the first half of 1916.

The average value of material other than fuel which was used monthly during the first half of 1916 was \$611,332, and during the last half of the year, was \$817,156, an increase of 33.6 per cent. Of this increase it is estimated that about one-half was due to the larger quantity of material used and half to the increased costs. This percentage of increase will rise rapidly during the present year, owing to the exhaustion of the stocks of lower-priced material.

On January 1, 1917, there was on hand material valued at \$6,393,275., an increase of 42.5 per cent, as compared with a year ago, the larger part of which can be attributed to increased value of the material.

On October 5, 1916, a circular was issued, showing the percentage of increased cost of a number of items in daily use, copy of which is attached.

At that time, the increases in cost of the articles listed ranged from 12 per cent. to 226 per cent.

A supplementary list is attached showing the changes in cost which have taken place in the same articles since the circular was issued, indicating increases ranging from 13.6 per

cent. to 313 per cent, showing increases of 100 per cent. or more in the prices of 34 articles out of 58, and 200 per cent. or more for 9 articles, as compared with 10 articles and 1 article respectively in the previous circular.

It is difficult to make an exact estimate of the increased charges to operation month by month, on this account, but it is certain that the effect will be much greater during 1917 than during the previous year.

This statement is based upon the fact that manufacturers generally are refusing to enter into yearly contracts for a supply of their products. In most cases, the longest period for which a contract at a fixed price can be obtained is three months.

The congestion at the mills and consequent delayed deliveries of material on contract make it necessary to frequently procure material in the open market and pay considerable bonuses for immediate delivery. The premiums thus paid do not appear in the statement of increased costs previously referred to.

It is thought that 60 per cent. would be a conservative estimate of the increased cost of all materials used in the operation of the railroads for the year beginning April 1, 1917, as compared with 1915, assuming that the cost of materials is not still further advanced above the present level.

On this basis, the increased cost of material for the year would amount to \$5,534,000 providing that the same quantity was used this year as last year.

If it is assumed that less will be used this year than last, because of shortage of labor, the increase may be less: on the other hand, the average increase in cost may be greater than estimated.

It is thought that \$5,000,000 is a conservative figure for the annual increase in cost of operation from this cause, and there are good reasons to believe it may be more.

As illustrating the more rapid increase in values during the recent months, a wrecking crane of 150 tons capacity, valued at \$18,000 in 1915, was sold in September, 1916, for \$22,965, and in April, 1917, for \$32,000.

A 30-ton locomotive crane, costing about \$12,000 in 1915, sold in October, 1916, for \$13,590, and in April, 1917, for \$18,550.

The same locomotives, which cost \$50,350 in January, 1917, cost \$57,320 in March, 1917, an increase of 13.8 per cent. in less than three months.

In November, 1915, Mikado type locomotives, weighing 400,000 pounds, cost 6.65 cents per pound.

In February, 1916, Pacific type locomotives, weighing 329,000 pounds, cost 8.53 cents per pound.

In March, 1917, Santa Fe type locomotives, weighing 441,000 pounds, cost 13 cents per pound.

A 50-ton steel hopper car, costing \$1,215 in January, 1916, is estimated to cost \$2,800 today.

**Statement Showing Prices of Various Materials and Supplies
According to Price Lists in Effect During the First
Quarter of Year 1915, as Compared with
Current Prices.**

	1st Quarter 1915	Current Prices
Acids.....	\$.75 per cwt.	\$1.50
Air Hose.....	.29 per ft.	.40
Angle Bars.....	1.874 per cwt.	2.35
Antimony (Babbitt Metal).....	.11 per lb.	.15½
Axles, Car and Tender.....	1.69 per cwt.	4.40
Axles, Driving.....	2.45 each	7.75
Axles, Engine Truck.....	1.815 each	7.50
Belting, Axle.....	.28 per ft.	.34
Belting, Leather.....	.28½ per ft.	.48
Bolts, Machine and Carriage.....	2.86 per 100	7.15
Bolts and Nuts.....	2.86 per 100	
Brass (Bar, Sheet and Spring).....	.32½ per lb.	.46
Bridge Timber.....	28.80 per M. ft.	33.00
Castings, Grey Iron.....	2.00 per cwt.	2.50
Chains, all kinds.....	2.50 per cwt.	5.20
Claw Bars.....	1.32 each	1.76
Copper (Bar and Sheet).....	.23 per lb.	.52
Couplers 5" and 7".....	16.25 per pair	32.50
Crank Pins.....	2.46 per cwt.	9.75
Drills, all kinds.....	.31 each	.40
Ferrules, Flue.....	.1835 per lb.	.64
Files.....	4.56 per doz.	5.24
Fuel Oil.....	.0325 per gal.	.055
Fusees.....	10.75 per gross	22.00
Gaskets, Air Hose.....	1.45 per 100	1.50
Nails, Wire.....	1.50 per cwt.	3.20
Pipe Covering, all kinds.....	.099 per ft.	.198

	1st Quarter 1915	Current Prices
Pipe, Galvanized.....	.088 per ft.	.128
Pipe, Malleable.....	.054 per ft.	.096
Piston Rods.....	2.51 per cwt.	8.75
Roofing.....	20.75 per M. ft.	26.50
Rope, Manila.....	.12 per lb.	.225
Sheathing.....	23.25 per M. ft.	31.00
Springs, coil.....	1.80 per cwt.	4.30
Springs, Elliptic.....	2.70 per cwt.	6.30
Steel Bar.....	1.28 per cwt.	3.939
Tamping Bars.....	.59 each	.70
Tamping Picks.....	.43 each	.51
Ties, Cross:		
No. 1.....	.70 each	.95
No. 2.....	.55 each	.625
No. 3.....	.35 each	.38
Ties, Switch.....	19.50 per M. ft.	24.00
Tires.....	2.90 per cwt.	6.50
Track Spikes.....	1.50 per cwt.	3.40
Waste, Cotton.....	.045 per lb.	.095
Castings, Brass.....	16.065 per cwt.	34.00
Castings, Steel.....	4.00 per cwt.	8.41
Cement.....	1.30 per bbl.	1.50
Gasoline.....	.10 per gal.	.23
Iron, Bar.....	1.285 per cwt.	2.75
Journal Bearings.....	15.065 per cwt.	32.00
Rivets, Boiler.....	1.66 per cwt.	4.10
Rivets, Structural.....	1.56 per cwt.	4.00
Steel, Structural.....	1.28 per cwt.	4.189
Steel, Boiler.....	1.38 per cwt.	4.839
Steel, Firebox.....	1.75 per cwt.	5.189
Steel, Tank.....	1.28 per cwt.	4.689
Track Bolts.....	2.85 per cwt.	7.248
Tubes, Boiler.....	.09½ per ft.	.22
Tubes, Brass.....	.20 per lb.	.475

Percentage of Increase in Cost of Various Materials for the
First Quarter 1917, as Compared with First
Quarter 1915.

Acids, Electrolyte.....	100.0%	Journal Bearings.....	112.4%
Air Hose.....	38.0	Nails, Wire.....	113.3
Angle Bars.....	25.4	Pipe Covering, all kinds.....	100.0
Antimony (Babbitt Metal).....	38.6	Pipe, Galvanized.....	45.4
Axles, Car and Tender.....	160.3	Pipe, Steel.....	77.7
Axles, Driving.....	216.3	Piston Rods.....	248.6
Axles, Engine Truck.....	313.2	Rivets, Boiler.....	147.0
Belting, Rubber.....	21.4	Rivets, Structural.....	150.6
Belting, Leather.....	66.6	Roofing, yellow pine.....	27.7
Bolts, Machine and Carriage.....	150.0	Rope, Manila.....	108.3
Brass (Bar, Sheet and Spring).....	40.4	Sheathing, yellow pine.....	33.3
Bridge Timber.....	49.3	Springs, Coil.....	138.8
Castings, Brass.....	111.6	Springs, Elliptic.....	133.3
Castings, Grey Iron.....	25.0	Steel, Bar.....	207.7
Castings, Steel.....	110.2	Steel, Boiler.....	250.6
Cement.....	36.3	Steel, Firebox.....	191.5
Chains, all kinds.....	108.0	Steel, Structural.....	227.3
Claw Bars.....	33.3	Steel, Tank.....	266.3
Copper (Bar and Sheet).....	146.0	Tamping Bars.....	18.6
Couplers.....	100.0	Tamping Picks.....	18.6
Crank Pins.....	296.3	Ties, Cross, No. 1.....	50.0
Drills, all kinds.....	89.0	" " No. 2.....	13.6
Ferrules, Flue.....	248.7	Ties, Switch.....	23.0
Files.....	40.3	Tires.....	124.2
Fuel Oil.....	69.2	Track Bolts.....	154.4
Fusees.....	104.6	Track Spikes.....	126.7
Gaskets, Air Hose.....	3.4	Tubes, Boiler.....	137.8
Gasoline.....	130.0	Tubes, Brass.....	137.5
Iron Bar.....	114.0	Waste.....	111.0

THE NEW YORK, NEW HAVEN AND HARTFORD
RAILROAD COMPANY
CENTRAL NEW ENGLAND RAILWAY COMPANY

OFFICE OF ASSISTANT TO PRESIDENT

Boston, Mass., October 5th, 1916.

To Officers and Employees:

The prices of all material and supplies used in the maintenance and operation of the railroad have been advancing continuously for more than a year, and the advance during the last six months is even more serious than during the latter part of the year 1915.

On all material excepting fuel, rails, and ties, the average increase in price during the past twelve months has amounted to approximately 60 per cent. During the year 1915 the company expended \$4,787,000.00 for material of this description. At the present market prices the same amount and character of material would cost \$7,659,000.00, or an increase of \$2,872,000.00 for the year.

On the following page are listed a number of items of common use with the percentage of increase in the cost of each, as a matter of interesting and instructive information.

Your earnest attention is called to this feature of the present business situation with the hope that every possible economy in the use of material and supplies will be exercised. Repairs should be made instead of complete renewals in all cases where practicable, even where under normal conditions it might be better to renew than to repair.

The management earnestly requests the active aid of all officers and employees in restricting the use of material to the necessary minimum.

E. J. PEARSON,
Assistant to President.

Increases Ranging from 10 to 85% between April, 1915, and July, 1916

Acids.....	47	Fuel Oil.....	42
Air Hose.....	38	Fuses.....	33
Angle Bars.....	33	Gaskets, Air Hose.....	11
Antimony (Babbitt Metal).....	42	Nails, Wire.....	61
Axles, Car and Tender.....	48	Pipe Covering, all kinds.....	33
Axles, Driving.....	30	Pipe, Galvanized.....	17
Axles, Engine Truck.....	63	Pipe, Malleable.....	59
Belting, Axle.....	33	Piston Rods.....	15
Belting, Leather.....	59	Roofing.....	17
Bolts, Machine and Carriage.....	40	Rope, Manilla.....	61
Bolts and Nuts.....	67	Sheathing.....	38
Brass (Bar, Sheet and Spring).....	54	Springs, Coil.....	74
Bridge Timber.....	44	Springs, Elliptic.....	51
Castings, Grey Iron.....	13	Steel, Bar.....	77
Chains, all kinds.....	62	Tamping Bars.....	85
Claw Bars.....	30	Tamping Picks.....	26
Copper (Bar and Sheet).....	36	Ties, Cross.....	13
Couplers.....	18	Ties, Switch.....	18
Crank Pins.....	12	Tires.....	55
Drills, all kinds.....	64	Track Spikes.....	77
Ferrules, Flue.....	36	Waste.....	78
Files.....	70		

Increases Ranging from 85% to 250% between April, 1915, and July, 1916

Castings, Brass.....	107	Steel, Structural.....	91
Castings, Steel.....	107	Steel, Boiler.....	226
Cement.....	86	Steel, Firebox.....	195
Gasoline.....	118	Steel, Tank.....	142
Iron, Bar.....	95	Track Bolts.....	115
Journal Bearings.....	89	Tubes, Boiler.....	94
Rivets, Boiler.....	132	Tubes, Brass.....	105
Rivets, Structural.....	140		

NECESSITY FOR NEW CAPITAL.

During the past year the facilities of the New Haven have been seriously over-taxed (in common with other railroads) to handle the business in its territory, and the directors and management realizing the difficulties and the importance of providing more adequate facilities for the constantly growing business have had careful studies made of the improvements necessary to give satisfactory service to the public and produce economies in operation.

Below are shown some of the more important projects, amounting to approximately \$30,000,000, which must be carried out as fast as the Company can get the money, men and material:

Heavier and stronger bridges.....	\$3,400,000.00
Additional main tracks and sidings.....	2,800,000.00
Improved signals	880,000.00
Improved telephone and telegraph facilities...	600,000.00
Improved engine terminals.....	480,000.00
Freight terminal improvements.....	5,900,000.00
Passenger terminal improvements.....	1,700,000.00
Equipment, shops and tools.....	9,300,000.00
Miscellaneous improvements—heavier rail, heavier ballast, adding to stations, industrial tracks, labor saving devices, etc., etc.....	2,800,000.00
	\$27,860,000.00

To this should be added for bridges, yard and miscellaneous improvements on the Central New England Railway approximately.....\$1,000,000.00

There are 57 crossings in Connecticut where under the law separation should be made; at an average of \$50,000 a crossing this would require

2,800,000.00
There are six very important grade separations that should be made in Massachusetts, one of which has been ordered by the court, not to mention many smaller pieces of grade work similar to those in Connecticut.

The estimate for the six crossings is nearly....\$6,000,000.00

In addition to the equipment mentioned in the previous table there should be at least 1,000 steel passenger train cars added to the service, which would cost on the basis of 1916 prices, about

\$15,000,000.00
It is not, therefore, an extreme statement to say that, for the good of the New Haven property and to aid it in serving the public, and in providing better working conditions for employees, and to obtain greater economies, at least \$50,000,000. should be spent upon the property as rapidly as practicable.

All of the improvements that the New Haven now has under way are for the purpose of adding to the physical capacity of the road, for handling freight and passenger business, with expedition, such as improved yards, improved engine houses, better passing tracks, heavier bridges, heavier locomotives, better appliances for handling coal and water, improved facilities at stations for reducing labor, etc.

A new passenger station is under contemplation at New Haven, but that is part and parcel of the whole plan to get the freight facilities at that point in such a condition that the maximum amount of business can be moved to, from and through New Haven with the minimum delay and expense. The freight facilities could not be improved without the destruction of the present passenger station and the creation of a new one on a different location.

All other improvements that might be termed of an ornamental or luxurious character have been postponed.

Recently the Company had \$43,000,000. of notes coming due. With much difficulty it succeeded in selling \$45,000,000. of one year notes, so as to pay off the \$43,000,000 and have \$2,000,000 cash left. These notes were sold on a basis that meant 7 per cent. per annum for interest, as compared with a rate of about 4.9 per cent. a year ago.

It is obvious that it is much more desirable to increase capital in a fluctuating business like the railroads by the selling of stock rather than by the piling up of these fixed charges. As having a bearing on this general subject there is given below a copy of a letter written to his Excellency, Honorable Samuel W. McCall, Governor of Massachusetts, in which state the Company is endeavoring to obtain certain laws that will permit the handling of its debt by an issue of preferred stock for the company if the stockholders so desire.

At New York City, April 28, 1917.

To His Excellency, Hon. Samuel W. McCall,
Governor of the Commonwealth of Massachusetts,
State Capitol, Boston, Massachusetts.

Dear Sir:

Referring to our two talks in Washington.

The New York, New Haven and Hartford Railroad Company has just finished the refunding of its short term indebtedness aggregating \$45,000,000. through an issue of Five Per Cent. Collateral Gold Notes dated April 15th, and maturing April 15th, 1918. The indebtedness to be paid matures May 1st, 1917, but because of the declaration of war and the certainty of a large bond issue by the Government, it was considered prudent to arrange the refunding while we could, rather than to run the risk of a dislocated market on the first of May.

After the arrangements for the refunding were completed, we were advised by the group of bankers which has for three years helped the Company to handle its floating debt, that this Company cannot rely upon renewing these notes at maturity without an improved credit and urging that a comprehensive plan of financing shall be adopted at once which will preclude the necessity of further short time or temporary borrowing.

The directors are, therefore, confronted with the serious problem of securing the money to pay an indebtedness amounting to \$45,000,000., maturing April 15th, 1918. It is obvious that the Company cannot from its earnings save this amount, besides which it needs to use these earnings to purchase cars and locomotives and to build and strengthen bridges, to enlarge yards and lay tracks in order to handle its business more promptly and economically.

It would seem that there are but three ways in which the Company may get the necessary money:

- (1) To issue bonds to be secured by a mortgage.
- (2) To sell its Boston & Maine stock and its trolley properties as ordered by the Federal Court, and
- (3) To issue preferred stock.

If the Company should mortgage its property it must, under the laws of both Massachusetts and Connecticut not only se-

cure the \$45,000,000 of bonds to be issued, but in addition, a present funded indebtedness amounting to something over \$188,000,000., making a total bond issue of \$233,000,000. Bonds issued in these circumstances, in view of the very great Government bond issue already authorized with the chance of further issues, are likely to prove unattractive to the investing public and even then would provide no additional money for future betterments and improvements.

The Boston & Maine stock, the securities of the trolley properties and the other securities ordered sold by the Federal Court have a book value of approximately \$120,000,000., but a forced sale at this time would certainly result in so great a loss as to postpone indefinitely the payment of any dividend on the common stock.

It seems clear that these securities should be held until the Company can sell them with the least possible loss, and that the Federal Court should be asked to extend the time within which they must be sold until normal conditions and better earnings provide a satisfactory market.

This leaves for consideration the issue of preferred stock, and prudent financing indicates this to be the method by which the Company should pay its indebtedness. The total amount of the Company's funded and floating debt exceeds the par value of its capital stock plus the premium paid thereon by \$80,000,000.

In other words, the Company has borrowed \$80,000,000 more than its stockholders have contributed. A preferred stock issue of at least \$40,000,000 would, if applied to the Company's indebtedness, reduce it by that amount and increase its stock capital proportionately, making the amount contributed by the stockholders and the amount borrowed substantially equal, and thus improve the credit of the Company.

A preferred stock issue to be successful must carry with it an assurance of dividends and while the Company, is from its net income, earning enough to pay a substantial dividend upon a preferred stock issue equal to the amount now paid as interest on a like amount of one year notes, counsel advise that the directors have not the right to declare dividends, even though earned, if there is reason to believe that upon a proper adjustment of the Company's balance sheet there is not enough actual profit and loss surplus.

In the present necessity of obeying the decree of the Federal Court contemplating the sale of \$120,000,000 of its investments as above stated, it is certain that the Company's surplus will be wiped out and that preferred stock issued under the present laws of Massachusetts and Connecticut would not be entitled to dividends.

If the necessary permission can be obtained to pay dividends as suggested, then the question of whether or not to make such issue will be for the stockholders to decide. It requires a two-thirds vote of all of the common stock to authorize an issue of preferred stock, and approval by the Public Service Commission of the entire transaction. The stockholders and the public are, therefore, fully protected.

The General Assembly of Connecticut and the General Court of Massachusetts have the right, however, to, by appropriate legislation, permit the payment of dividends out of the annual net income and a statement of the situation to the Governor and the General Assembly of Connecticut has resulted in the favorable report of a bill permitting this Company to issue preferred stock not exceeding \$50,000,000 par value, cumulative dividends upon which at the rate of not exceeding seven per cent. per annum may be paid out of the annual net income of the Company.

It is hoped that the General Court of Massachusetts will enact similar legislation, but the changes in the world financial situation because of the recent great war loan is so recent that under the rules of the General Court of Massachusetts, it is not practicable to obtain this legislation unless based upon a message from the Governor suggesting or recommending the same.

The Company, therefore, respectfully requests that in view of the serious exigency, you send a message to the General Court of the foregoing import so that the subject may be brought before that body for due consideration.

Conferences have been held between the Public Service Commission and the representatives of the Company as a result of which in answer to a letter of inquiry from the Senate Chairman of the Railroad Committee, the Commission has recommended the enactment of legislation which will permit the Company to issue preferred stock having the dividend rights above noted, provided the proceeds thereof are used for the

purpose of funding its floating indebtedness or providing for additions or betterments to its property.

It is believed that if this matter can be brought before the General Court in the manner indicated the Commonwealth will be in a position to enact the legislation and give the relief so urgently needed.

Very respectfully yours,
(signed) HOWARD ELLIOTT,
Chairman and President.

FINANCIAL NECESSITIES AND PREPAREDNESS.

It is obvious that the railroads must work just as fast and as hard as they can to get themselves in a position to do promptly a maximum amount of business so as to help win the war. This may mean, and doubtless will mean a change in the currents of industry to a greater or less extent, which will have an effect on gross earnings.

Government supplies and food and supplies for the Allies must have the right of way. To handle promptly these classes of freight and to do what doubtless will be necessary for the Government all along the sea coast, there will probably have to be money spent for additional sidings and new terminals, new approaches to harbors and docks, etc.

The dangers of water navigation along the coast and the exceptionally high price of coal charged to the boats, and the use of more or less of the present available boats by the Government, are already having its effect in reducing the available amount of water transportation. This will throw an added burden upon the railroads along the Atlantic Coast and make it more necessary than ever before to help them so they can spend money freely in obtaining labor and material for keeping their properties in as high a state of efficiency as the present complicated conditions will permit.

HIGH PRICES WILL CONTINUE.

One man's view about this is probably as good as another. There does not seem, however, to be any reason for expecting a material reduction in prices unless conditions now existing suddenly change for the better. The demands for all kinds of articles needed by the railroads is very great not only in this

country, but by the Allies. Labor costs are showing every indication of increasing and as labor is a very large item in the cost of any material it is hard to see how there can be any reduction in delivered prices until after the war.

This would seem to be particularly true for supplies like coal and all metallic articles. The demand for lumber for ship building purposes, and the demand for men to build ships will no doubt cause an increase in the price of wooden articles and in the cost of applying wooden materials to the railroads.

INCREASED REVENUE TO BE OBTAINED BY INCREASES IN RATES.

The gross freight earnings of the New Haven and Central New England combined for the year ending December 31, 1916, were 43,260,785.

If 15% could be obtained on every shipment and the volume of business was just the same the increases from this source would be \$6,469,118.

It is, however, not to be expected that the full 15% can be obtained on every pound of freight moving in New England, because some of the short haul business cannot be increased and because some rates were increased during the year just passed, upon which the full 15% proposed advance will not apply. The approximate increase will not exceed \$3,000,000 to \$3,500,000.

Additional revenue could be obtained from passenger train business if Federal and State Commissions would permit and the amount that would be procured in this way is as follows:

Increase one way ticket and mileage rates 1c. per mile	\$2,750,000
Increase rates in Metropolitan Zone of Boston from 2 cents to 2½ cents.....	250,000
Increase of 50 cents per passenger on Limited Trains	130,000
Making charge for physical handling of baggage of 10 cents	400,000
Increase of 10% for passengers riding in parlor cars	700,000
Increase of 10% in so-called trip tickets.....	200,000
	\$4,430,000

The New Haven road believes it is entitled to a greater relative increase in rates than roads in other territory because of certain conditions peculiar to New England.

FIRST. Its present rates on the whole are lower than rates for similar distances for many parts of the United States as shown by comparison on the fifteen sheets hereto attached. An examination of these sheets will show, for example, as follows:

Comparisons	Distance	Higher than N.H.	Lower than N. H.
62	5	45	16
62	10	42	19
63	20	52	10
65	30	54	10
65	40	53	11
63	50	52	12
63	60	49	13
63	70	50	12
64	80	51	12
64	90	52	11
64	100	52	11
62	120	48	13
61	140	49	11
61	160	47	13
60	180	49	10
58	200	46	11

The cases where rates are lower than on the New Haven are mostly in Central Freight Association territory, which may be termed the "Bottom of the bowl," and which rates were referred to by the Commission in the "Five Per Cent. Rate Case" as being very low. Taking into consideration all of the adverse factors in railroad operation in New England as compared with Central Freight territory, the class rates on the New Haven may well be said to be at bottom of the list. The rates shown are as of 1914, but since that time there have been only slight changes and the relationship is but little changed as of to-day. Central freight lines now have tariffs on file with the Commission largely increasing their class rate scale, which if put into effect without any change in New Haven rates will make the New Haven's position even lower than shown on the sheets hereto attached.

SECOND. The New Haven has to pay for its coal a price based on the price at the mine, plus a freight rate which is approximately \$1.75 to \$2.00 per ton, which means from \$3,500,000. to 4,000,000. a year in excess of the price paid for the same amount of fuel used by railroads in Pennsylvania, West Virginia, and the other states adjacent to the coal mines. In addition to this, because it does not control operation and car supply at the mines, the tendency is to pay somewhat higher prices at the mines. This increased fuel cost certainly justified a greater increase to the New Haven than to roads that can obtain fuel with greater regularity and at a lower price.

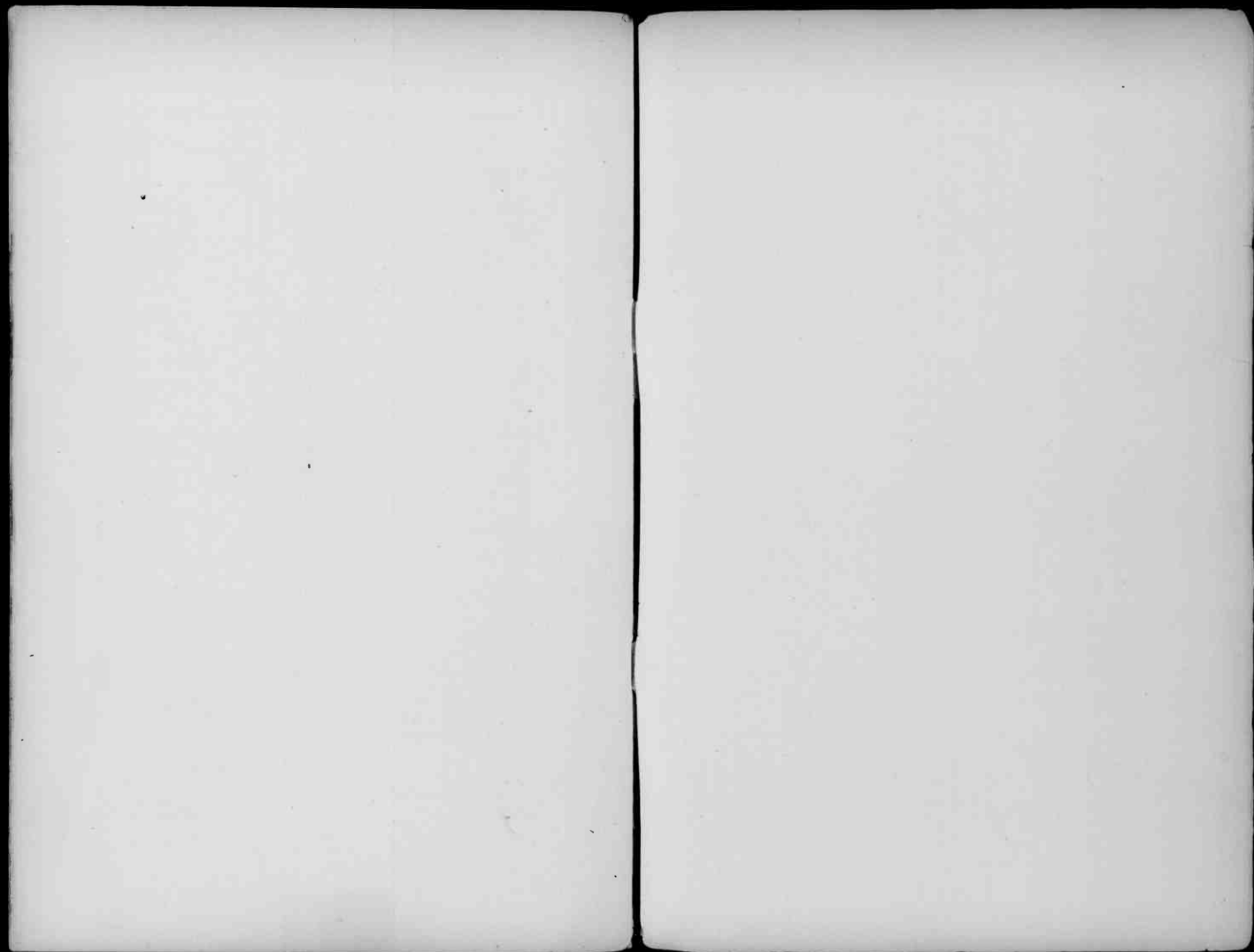
THIRD. The percentage of small lot, or less-than-carload and lightly-loaded business on the New Haven is very large, as shown by statement hereto attached, which indicates that well over 50% of the business consists of articles that move in lightly-loaded cars. Furthermore, as New England is essentially a manufacturing district producing nominally nothing except from raw material which it must first obtain west of the Hudson River, from 60 to 65% of all cars going into New England under load are returned empty.

FOURTH. The average haul on the New Haven road is very short, being for the year ending June 30, 1916, only 87 miles, a great deal shorter than on any other road except the Central Railroad of New Jersey (71 miles) made up largely of train-load lots of carload articles. This short haul and low average loading per car increases terminal charges very materially. The average load per car for the year ending June 30, 1916, was only 16.27 tons, the lowest of twenty roads compared, although every effort has been made to increase the loading of less-than-carload cars, which is what pulls down the average.

FIFTH. The general level of wages is very high in New England as compared with other roads, due in part to the fact that much of the New England food supply is brought from long distances and to the further fact that the great manufacturing activity throughout New England has brought about a very general increase in wages, somewhat greater on the whole as far as wages for track and so-called common labor are concerned than in other parts of the country.

DESCRIPTION OF REVENUE FREIGHT MOVED.

	1916		Comparison with 1915	
	Tons	Per Cent of Total	Increase	Decrease
Products of Agriculture:				
Grain.....	436,955	01.5		169,050
Flour.....	219,239	00.8		54,012
Other Mill Products.....	158,230	00.5		28,929
Hay.....	199,812	00.7		35,742
Tobacco.....	26,547	00.1	2,820	
Cotton.....	389,794	01.3		687
Fruit and Vegetables.....	390,384	01.3		127,274
Other Articles.....	129,795	00.4	2,275	
Total.....	1,950,756	06.6		410,599
Products of Animals:				
Live Stock.....	38,745	00.1		6,830
Dressed Meats.....	126,081	00.4		21,025
Other P. H. Products.....	40,327	00.2	10,286	
Poultry, Game and Fish.....	54,349	00.2		4,199
Wool.....	123,724	00.4	13,535	
Hides and Leather.....	118,346	00.4		33,917
Other Articles.....	202,266	00.7		12,117
Total.....	709,838	02.4		54,267
Products of Mines:				
Anthracite Coal.....	2,909,939	09.9	506,393	
Bituminous Coal.....	4,416,351	15.0	847,870	
Coke.....	142,839	00.5	37,795	
Ores.....	23,065	00.1	1,408	
Stone, Sand, etc.....	783,869	02.7		71,360
Other Articles.....	181,216	00.6	85,753	
Total.....	8,457,479	28.8	1,407,859	
Products of Forests:				
Lumber.....	1,057,281	03.6		54,069
Other Articles.....	237,162	00.8	39,190	
Total.....	1,294,443	04.4		14,879
Manufacturers:				
Petroleum and other oils.....	537,258	01.8	37,711	
Sugar.....	64,119	00.2	6,291	
Naval Stores.....	10,997	00.0	4,464	
Iron, Pig and Bloom.....	506,411	01.7	62,139	
Iron and Steel Rails.....	52,038	00.2	2,369	
Other Castings and Machinery.....	457,125	01.6		6,683
Bar and Sheet Metal.....	600,005	02.0		28,365
Cement, Brick and Lime.....	1,000,473	03.5		156,071
Agricultural Implements.....	11,265	00.0	5,638	
Wagons, Carriages, etc.....	27,056	00.1	2,331	
Wines, Liquors and Beers.....	127,090	00.4		7,796
H. H. Goods and Furniture.....	83,514	00.3	39,847	
Other Articles.....	3,045,255	10.4	477,392	
Total.....	6,522,606	22.2	438,767	
Miscellaneous:				
Commodities not previously mentioned.....	5,015,963	17.1	957,139	
Merchandise.....	5,433,954	18.5	1,028,980	
Grand Total.....	23,379,039	100.0%	3,352,928	



MSH 21053

**END OF
TITLE**